

## **Federal: Deploying fiscal windfall (with more upside to come)**

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### **Summary**

- Armed with a fresh majority in the House of Commons, Prime Minister Carney's Liberal government opted to deploy an emerging fiscal windfall, leaving the current and future fiscal year deficit trajectory little changed vs. Budget 2025. Mind you, the now completed 2025-26 fiscal year is characterized by less red ink, while some positive adjustments to nominal output aid any relative measure that happens to be scaled to GDP. Adding strength remains the government's overarching focus, which means "building big" and "moving fast", with the spring update positioned as a "next step". Ottawa's relatively ambitious (arguably pragmatic and hopefully transformative) budgetary plan leverages the nation's established fiscal advantage, with Canada's position as a net energy exporter hinting at incremental upside should key commodity prices remain elevated.
- The latest but not-yet-final estimate of the 2025-26 federal deficit comes in at \$66.9 billion (2.1% of GDP), an improvement relative to the shortfall eyed in Budget 2025 (\$78.3 billion or 2.5% of GDP). The budgetary beat stems from economic and fiscal developments since the fall. Revenue came in above expectations and spending ended up running lower than planned, even with new policy initiatives introduced.
- For the 2026-27 fiscal year, Ottawa's deficit projection is largely unchanged from Budget 2025 but that's not a function of a static macroeconomic/fiscal backdrop. Developments since Budget 2025 yielded a significant fiscal windfall, to the tune of more than \$15.7 billion for 2026-27, but new policy initiatives will see all of this deployed. Still, conservative planning assumptions for oil prices and nominal GDP growth mean there may be material fiscal upside yet to be realized. Changes to the deficit profile relative to Budget 2025 are also minimal further out the projection horizon. Ottawa still expects its shortfall to gradually moderate, reaching \$53.2 billion (1.4% of GDP) by 2030-31.
- In 2025, the Canadian economy proved more resilient to U.S. trade frictions than initially feared. However, this update reflects a shift from one source of uncertainty (trade) to another (oil price shocks). In the budget's baseline planning assumptions, nominal GDP is expected to grow by 4.0% in 2026 with WTI seen averaging US\$73/bbl, which may prove conservative in time. Addressing the heightened geopolitical uncertainty, the update presents two scenarios to illustrate the range of outcomes that may stem from the Iran conflict. A higher investment scenario sees nominal GDP rising on the back of sustained high oil prices, lowering the deficit by \$3.7 billion annually. In contrast, a global supply disruptions scenario combines high oil prices with tighter economic conditions, slowing growth and worsening the budgetary trajectory by ~\$2 billion per year.
- This update builds on Budget 2025's shift towards longer-term, investment-intensive avenues while layering in/formally introducing measures that put affordability at the forefront. Near-term relief is offered through a previously announced federal fuel tax suspension and enhanced GST support for low-income households. Additionally, a 40 bp reduction in the CPP contribution rate (to 9.5%) will save the average worker \$133/year, while also ensuring a "prudent financial buffer" is maintained, as outlined in the latest Actuarial Report. Ottawa will push for workforce development, pledging \$6 billion over the next five years towards the recruitment and training of skilled trades workers, while continuing to prioritize nation-building infrastructure projects. Central to this, the introduction of the Canada Strong Fund—Canada's first sovereign wealth fund—will aim to accelerate development while attracting private capital. Operating at arm's length from the feds and seeded with \$25 billion over the next three years, more details will follow in the coming months as it pertains to the fund's governance structure, investment mandate, and retail participation.
- The federal government's debt picture is modestly improved vs Budget 2025. The estimated level of debt for 2025-26 is down roughly \$13 billion relative to November's projection. Factoring in a brighter nominal GDP picture, the associated debt-to-GDP ratio is seen at 41.1% vs 42.4% previously guided. Though the debt burden is still set to rise, its curve will be lower and flatter than that proposed in Budget. There's likewise marginal relief in public debt charges versus fall planning, though the nation's 'interest bite' will continue to climb. Still, interest costs will remain comfortably below longer-run averages (and of course hinge on a wide range of potential economic scenarios). Ottawa remains on track to obey its two stated 'fiscal anchors' throughout the projection.
- In aggregate, the government will borrow \$23 billion less than originally planned for in 2026-27. This reduced borrowing need will be entirely absorbed by the treasury bill market, with the end of year outstandings target revised down to \$268 billion. The domestic bond program will enjoy complete stability relative to what was outlined in the DMS last November, with planned gross issuance remaining at \$298 billion.



## Selected highlights

### ▪ **Economic backdrop** ➤ *Resilience meets a Middle East energy shock*

The Spring Economic Update lands in a different environment than the one envisioned last fall. The Canadian economy proved more resilient to U.S. trade frictions than feared—real GDP outpaced earlier projections, and the jobless rate has fallen from its September peak. That headline narrative has, however, been overtaken by the eruption of conflict in the Middle East. The associated supply-driven oil price shock is lifting Canada's terms of trade and bolstering nominal GDP, while simultaneously injecting fresh inflation pressure and complicating the BoC's policy calibration.

- Consistent with past practice, the update's economic assumptions reflect the prevailing private sector consensus, drawn from a March 2026 survey of 11 forecasters (NBC included). The survey incorporates the latest tariff measures and the initial impacts of the Iran war.
- Real GDP grew by 1.7% in 2025, a print materially better than the 1.1% that had been penciled in last fall. That's thanks to better-than-expected domestic demand and CUSMA-protected trade flows, but also to statistical revision. Still, expected growth in 2026 has been nudged down to 1.1% (vs. 1.2% in Budget 2025), reflecting persistent trade uncertainty and a near-term drag on consumer purchasing power from higher fuel prices. Annual growth of ~1.9% is envisioned over the balance of the forecast horizon (through 2030).
- Nominal GDP—a proxy for government revenue—has been revised meaningfully higher, with two forces at work: a stronger 2025 hand-off (4.3% advance vs. 3.9% projected last fall) and a higher near-term GDP deflator driven by surging oil prices. The level of nominal GDP is thus projected to be \$46 billion higher in 2026 and \$34 billion higher in 2027 than envisioned last fall, with the gap averaging ~\$35 billion/year through 2029. Nominal growth is expected to be 4.0% in 2026 (up from 3.0% previously) before settling near 3.7-3.9%/year as oil prices normalize and CPI inflation re-anchors to the BoC's 2% target.
- The conflict in the Middle East has materially recast oil price assumptions. This fiscal update embeds an average WTI assumption of US\$73/bbl in 2026, US\$8 above the Budget 2025 projection. However, this is still below the price implied by the current WTI futures strip which points to a gradual easing to just below US\$80 by year-end. As a net energy exporter, Canada is relatively insulated and benefits from positive terms-of-trade, even if higher pump prices weigh on households. As a useful rule of thumb, it's estimated that a persistent 10% lift in WTI (about US\$6.50 per barrel from early-2026 levels) raises nominal GDP by 0.5% or \$18 billion in year one.
- Two alternative scenarios bookend the baseline projections, both of which focus on oil price paths, rather than tariff policy outlooks. A higher investment scenario sees WTI averaging US\$95 in 2026 (US\$22 above baseline) and remaining elevated, supporting an investment-led pickup with nominal GDP a cumulative \$37 billion/year higher. An adverse, global supply disruptions scenario shares the same oil price profile but layers on broader supply-chain stress, persistent inflation, and tighter financial conditions. The anticipated result is real GDP growth of just 0.8% in 2026 and 1.0% in 2027, despite the near-term nominal GDP boost.

### ▪ **Fiscal outlook** ➤ *Ottawa's fiscal dividend to be fully deployed*

- The latest, but not-yet-final projection of the 2025-26 deficit is \$66.9 billion or 2.1% of GDP. Prior official guidance (i.e., Budget 2025) had eyed a shortfall of \$78.3 billion. The improvement is largely a function of economic and fiscal development since Budget 2025 which, absent new measures, would've shaved close to \$18 billion from earlier deficit guidance. However, policy actions taken since the budget, including in this update, left only \$11.4 billion to flow through the bottom line. Relative to the original budget plan, revenues were \$4 billion (+0.8%) above plan and spending (excluding net actuarial losses) was lower by \$14.1 billion (-2.4%).
- For the 2026-27 fiscal year, the government plans to run a shortfall of \$65.3 billion (1.9% of GDP) which is effectively unchanged versus the guidance offered last fall. That's not because the fiscal situation has been static, though. Like 2025-26, economic and fiscal developments since Budget 2025 were a significant budgetary tailwind, providing uplift of \$15.7 billion in 2026-27. However, initiatives announced prior to and within this fiscal update fully offset this windfall, leaving nothing to improve the budget balance. Relative to 2025-26, Ottawa sees its revenues growing by 3.5%, while spending (excluding net actuarial losses) is set to rise by 4.9%. We would emphasize that this fiscal update is based on what we view as a conservative nominal GDP growth profile, due in part to a conservative WTI assumption. We expect the economy to grow a full percentage point faster than assumed in the fiscal update, which leaves Ottawa well-positioned to deliver a positive fiscal surprise in the fall.
- The multi-year fiscal framework envisions a deficit of \$63.1 billion in 2027-28 (1.8% of GDP), Ottawa's shortfall easing modestly in each fiscal year to reach \$53.2 billion (1.4% of GDP) by 2030-31. The trajectory for the deficit beyond 2026-27 is effectively unchanged from Budget 2025. Over these final four years of the plan, it is assumed that total revenues will grow at an average annual rate of 3.8% vs. a 3.1% tempo for total spending (all types, operating and capital, inclusive of interest charges but excluding net actuarial gains/losses).
- Altogether, there is less red ink accumulating in this fiscal plan than in Budget 2025. Between 2025-26 and 2029-30, the cumulative deficit is nearly \$13 billion smaller, though the vast majority of this improvement was booked in the fiscal year just ended (2025-26).
- In the fall budget, the government introduced a new accounting framework whereby they split the annual budget into operating and capital categories. Technically, this update is ushering in more spending and less investing as the 2026-27 operational deficit is expected to be \$2 billion larger, while capital spending is projected to be \$2 billion lower than the Budget 2025 plan. Nonetheless, this is a modest deviation. Further out the horizon, operating and capital balances are effectively the same as outlined last fall. Thus, Ottawa still sees its operational deficit being erased by 2028-29, one of the government's two fiscal anchors.
- The budget's two main scenarios (called the *Higher Investment* scenario and the *Global Supply Disruptions* scenario) both involve higher oil prices and give a sense of relative budgetary risks should the geopolitical backdrop deviate from the base case. Under the *Higher*



*Investment Scenario*, \$5.7 billion would be shaved from the deficit in 2026-27 and \$3.2 billion/year over the rest of the horizon, on average. Under the *Global Supply Disruptions* scenario, the 2026-27 deficit would shrink by \$3 billion but shortfalls would be *higher* by an average of \$3.5 billion beyond this year. Official sensitivity analysis is another way to gauge fiscal risks should oil prices deviate from planning assumptions. Ottawa assumes that a persistent 10% increase in WTI prices would subtract \$2 billion from the deficit.

## ▪ **New measures** ➤ *Spending less to invest more... but still spending*

The 2025 Budget plan, which sprawled over nearly 500 pages, called for capital spending of \$280 billion over the 5-year horizon ending in 2029-30. Plans to ‘build, protect, and empower’ Canada keyed in on an opportunity to divert spending away from short-term operational expenses and towards longer-run, investment intensive and economically transformative avenues. This document builds on that tone, reiterating strategic investments while formally introducing new measures announced since the Budget—particularly those aimed at supporting economic development /resilience, and improving affordability for Canadians. Key components from the update include:

- *Spending less (but still plenty)* → Since the fall, the Liberal party, touting a fresh majority government, has announced several new affordability measures—notably a boost to low-income family GST benefits and a pause on the federal gas tax (through Labour Day)—which will add some pressure to the bottom line. The Canada Groceries and Essentials Benefit, combined with the suspension of the fuel tax comes at an estimated cost of over \$14 billion over the capital plan’s horizon. Despite promises to skew spending towards productivity-enhancing projects of national interest, bringing down everyday costs is at the ‘heart’ of this fiscal plan, according to Finance Minister Champagne. The update also introduces a payroll tax cut via a reduction in CPP contributions (9.9% to 9.5% effective 1-Jan-2027), providing savings for employees (average \$133/year) and employers alike. The 40 bps reduction in the base contribution rate still leaves it above the Minimum Contribution Rate (MCR, ~9.2%) outlined in the latest Actuarial Report and thus maintains a “prudent financial buffer”.
- *Investing more (though more details keenly awaited)* → Canada’s first sovereign wealth fund (detailed below) will help to accelerate nation-building projects and seek to attract additional private capital for those investments set forth / approved by the MPO. That office has announced 15 projects to date, representing over \$125 billion in capital investments. In addition to development tax incentives, trade diversification, and climate competitiveness strategies outlined in Budget 2025, the Spring Update commits \$6 billion over five years towards the recruitment and training of skilled workers, directly aligned with the government’s infrastructure and housing agendas.
- *Canada Strong Fund* → Introduced just prior to the Spring Economic Update’s release, the ‘Canada Strong Fund’ (CSF) is Canada’s first sovereign wealth fund. It will be seeded with \$25 billion of public capital, provided over three years on a cash basis, and be operated at arm’s length from the government with a view to investing in essential projects and companies to drive Canada’s long-term growth and competitiveness, aligned with existing entities such as the Canada Infrastructure Bank. The Fund will also offer Canadians a chance to participate in funding and the associated financial returns through a retail investment product. The Government of Canada will establish a transition office for the CSF to finalize details of this investment product, the Fund’s governance, and investment mandate over the coming months.

## ▪ **Debt burden & interest bite** ➤ *While still rising, debt picture has improved*

- The federal government’s debt picture is modestly improved vs. Budget 2025. For the prior fiscal year, 2025-26, the estimated (not yet final) level of federal debt is down roughly \$13 billion vs. November’s projection. Factoring in a brighter nominal GDP picture and the associated federal debt-to-GDP ratio is seen at 41.1% vs. 42.4% previously.
- The debt burden is still rising year-on-year and is projected to edge up to 41.5% in the current fiscal year. But this is a lower and flatter debt curve vs. prior guidance, with some near-term improvement potential in our view. For additional context, the new peak level for federal debt-to-GDP, at 41.9% in 2028-29, is 1.4%-pts lower than the peak level from the prior plan.
- Consistent with the alternative budgetary scenarios noted above, the federal debt-to-GDP ratio would be no higher (in most cases lower) than the prior year’s 41.1% level under a “higher investment scenario”. Even under an adverse scenario, the peak in debt-to-GDP is seen as lower than the old baseline from November 2025, highlighting the importance of an improved starting point and enlarged GDP denominator.
- Note that the federal government focuses on a narrow debt measure called accumulated deficit, which subtracts the value of non-financial assets from net debt. Provincial governments generally focus on net debt. To aid comparison, the federal net debt-to-GDP ratio would be equivalent to 46.1% in 2026-27, whereas the weighted average provincial net debt burden is currently projected at 31%.
- Strictly speaking, the debt burden is not one of Ottawa’s two stated ‘fiscal anchors’, which relate to operational balance and a declining deficit-to-GDP ratio. While there are no long-term leverage targets, debt-to-GDP will continue to be closely eyed by rating agencies and investors with the government acknowledging: “Keeping the federal debt-to-GDP ratio from rising over the long term will help ensure enough fiscal capacity remains to adequately manage future fiscal pressures not accounted for in the baseline long-term projection.”
- There’s likewise a bit of marginal relief in public debt charges (PDC) vs. Budget 2025. Mind you, the government’s accumulating debt load (and higher interest rates) will see interest charges outgrow revenue by a ratio of more than 2:1 in the coming five years, implying a growing ‘interest bite’. Public debt charges are projected to consume 11% of total revenue in 2026-27 and more than 13% by the final year of the fiscal framework (2030-31). PDC as a share of GDP would rise from 1.7% in 2025-26 to 2.1% by 2030-31, still comfortably below the longer-term average of 3.2%.



## ▪ Debt Management Strategy ➤ *Fewer bills but earlier bond issuance plan intact*

- The aggregate amount to be borrowed in 2026-27 was revised down to \$571 billion, from \$594 billion. The treasury bill market will absorb the entirety of the reduced borrowing need. At \$268 billion, the bill stock at the end of 2026-27 is now expected to be \$23 billion smaller than was originally signaled in the fall.
- The domestic bond program will enjoy complete stability relative to the Budget 2025 plan. Planned gross bond issuance in 2026-27 is unchanged at \$298 billion. The placement of bonds on the curve also remains intact (\$110 billion of 2s, \$80 billion of 5s and 10s and \$24 billion of 30s). Similarly, the \$4 billion target for green bond issuance was retained, though this remains subject to market conditions.
- The number of bond auctions in 2026-27 will also remain unchanged (20 x 2-year, 16 x 5-year, 16 x 10-year and 8 x 30-year). With static gross issuance targets, auction sizes should continue at their recent pace.
- Benchmark target ranges were left intact, as follows: \$26-34 billion for 2-years, \$38-46 billion for 5-years and 10-years, and \$28-38 billion for 30-years.

## Summary Statement of Transactions

Table A1.7

### Summary Statement of Transactions billions of dollars

	2024– 2025	2025– 2026	2026– 2027	Projection			
				2027– 2028	2028– 2029	2029– 2030	2030– 2031
<b>Budgetary revenues</b>	511.0	511.5	529.6	546.8	565.9	589.8	613.7
Program expenses, excluding net actuarial losses	489.9	512.8	536.1	543.9	555.9	575.4	591.6
Public debt charges	53.4	54.0	58.7	65.7	71.6	75.7	80.9
<b>Total expenses, excluding net actuarial losses</b>	<b>543.3</b>	<b>566.8</b>	<b>594.8</b>	<b>609.6</b>	<b>627.5</b>	<b>651.1</b>	<b>672.5</b>
Budgetary balance before net actuarial losses	-32.3	-55.3	-65.2	-62.8	-61.6	-61.3	-58.8
Net actuarial losses	-4.0	-11.6	-0.1	-0.4	3.9	5.2	5.6
<b>Spring Update 2026 budgetary balance</b>	<b>-36.3</b>	<b>-66.9</b>	<b>-65.3</b>	<b>-63.1</b>	<b>-57.7</b>	<b>-56.2</b>	<b>-53.2</b>
<b>Financial Position</b>							
Total liabilities	2,182.3	2,329.0	2,480.8	2,646.9	2,804.9	2,930.8	3,046.7
Financial assets	788.8	856.0	924.8	1,007.6	1,088.6	1,141.5	1,184.0
Net debt	1,393.6	1,473.0	1,556.0	1,639.3	1,716.3	1,789.3	1,862.7
Non-financial assets	127.1	139.1	156.8	177.0	196.2	213.1	233.3
<b>Federal debt<sup>1</sup></b>	<b>1,266.5</b>	<b>1,333.9</b>	<b>1,399.3</b>	<b>1,462.4</b>	<b>1,520.1</b>	<b>1,576.3</b>	<b>1,629.4</b>
<b>Per cent of GDP</b>							
Budgetary revenues	16.4	15.8	15.7	15.6	15.6	15.6	15.7
Program expenses, excluding net actuarial losses	15.8	15.8	15.9	15.6	15.3	15.3	15.1
Public debt charges	1.7	1.7	1.7	1.9	2.0	2.0	2.1
Budgetary balance	-1.2	-2.1	-1.9	-1.8	-1.6	-1.5	-1.4
Federal debt	40.7	41.1	41.5	41.8	41.9	41.8	41.6

<sup>1</sup> The projected level of federal debt for 2025-26 includes an estimate of other comprehensive income of \$1.8 billion for enterprise Crown corporations and other government business enterprises, and an estimate of \$2.4 billion for net remeasurement losses on swap agreements, foreign exchange forward agreements, and other financial instruments.



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